



# ECONOMIC LENS

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# Settling the debate over Egyptian Free Zones: Detailed assessment of performance, key challenges and future directions



## Background

Egypt's free zones were originally established to stimulate industrial activity, enhance export performance, and attract foreign direct investment (FDI). To support these objectives, firms operating within these zones benefit from substantial financial incentives, most notably exemptions from corporate profit taxes, alongside simplified export and import procedures. However, increasing doubts have emerged regarding the continued relevance, efficiency, and overall macroeconomic value of the free zone framework. This debate is dominated by two central concerns:

1. Are the free zones actually succeeding in their core objectives of generating exports and sustainable investment?
2. Do the fiscal incentives granted to these zones represent an efficient use of public resources, or are they a burden on government revenues without clear returns?

In the absence of comprehensive performance assessments that take into account the perspectives of different stakeholders, these doubts have left the future vision for free zones unclear.

## What ECES did

To answer these two questions, ECES conducted a detailed assessment of the 10-year performance of the Egyptian free zones. The assessment analyzed the performance of Egypt's 9 public free zones and approximately 218 private free zones over the past 10 years. This assessment was structured around the following core pillars:

- Assessing the performance of Freezones globally
- The contribution of Egyptian free zones to boosting national exports.
- The contribution of Egyptian free zones to enhancing the technological content of exports.
- Their contribution to attracting foreign direct investment (FDI).
- Their role in generating economic spillover effects.

ECES also conducted a very comprehensive assessment of the legislative and institutional frameworks, as well as the operational performance. Furthermore, a distinct level of assessment was dedicated to exploring the relationship between the domestic market and free zones across different industries, as well as evaluating how the free zones impact government revenue. This ensured that all perspectives and elements of the free zones were examined to provide a complete, objective picture. Finally, in addition to assessing the performance of free zones globally, detailed research was conducted on new global trends to evaluate Egypt's trajectory against international standards and identify the extent to which its free zone framework diverges from global benchmarks.

The analysis is completed, and a full report is currently being prepared, which will present the detailed findings of this assessment, along with key insights and policy recommendations to help inform future reforms.

## Key findings and implications

The assessment reveals that Egypt's free zones have performed well over the past 10 years, contributing positively to economic activities by increasing exports and attracting foreign direct investment (FDI). However, the continuation of certain institutional and legislative deficiencies prevents the optimal utilization of these zones. These structural flaws create systemic grey areas that leave room for discretion by policymakers. Consequently, this leads to the inconsistent application of rules and fosters non-

transparent decision-making. Addressing these weaknesses is essential to achieve optimal use and reduce the opportunities for discretion and potential corruption.

Simultaneously, the assessment highlights a clear shift in the global approach to investment incentives. Countries are increasingly moving away from fixed tax exemptions toward incentive systems tied directly to performance indicators, alongside the adoption of sector-specific free zone models, where free zones are designed to specialize in particular industries or economic activities.

### **The cost of the status quo**

Maintaining the current status quo perpetuates a negative perception of Egypt's free zones, shaped by concerns over weak governance and systemic loopholes. This not only undermines their overall performance but also increases the risk of a strong policy backlash, including the imposition of excessive restrictions or even attempts to abolish them in the near future. Such measures would significantly weaken their foundational purpose and widen the gap between global trends and Egypt's direction.

### **What needs to be done**

To resolve these debates and ensure a sustainable, high-performing free zone system aligned with global standards, it is highly recommended that Egypt adopts core principles centered around the following:

- The experience of the free zones demonstrates a successful economic impact on Egypt; therefore, they should be seen as a key instrument in implementing Egypt's trade and investment policy.
- Correction of the legislative and institutional framework deficiencies is necessary to ensure business sustainability, support expansion, and avoid policy discretion, misuse, or over-reliance on local sales.
- The primary role of free zones is to drive exports to global markets and attract foreign direct investment, not to target sales to the local market. Local sales should be permitted only to support seasonal business operations and ensure the sustainability of exports. Therefore, local sales should only be allowed under controls linked to the nature and seasonality of the activities, and the determination of the allowable percentage should be based on clear, measurable

criteria that are periodically reviewed, along with clear exit facilitation mechanisms for firms that cannot export abroad.

- Maintaining an attractive business environment is the main driver for attracting investment and is a key factor for free zones and special economic zones in Egypt and worldwide.
- The incentives granted to free zones are important for attracting foreign investment and increasing exports and should not be seen as a fiscal burden. However, they should be provided within a structured framework similar to a duty drawback system and linked with performance indicators for the company.
- There is a fundamental difference between the nature of investment in free zones and domestic investment, and they should not be directly compared under a unified framework. Each should have performance indicators aligned with its specific nature.
- Egypt should align its free zone implementation with global trends by adopting sector-specific models, where zones are strategically designed to specialize in particular industries or economic activities. This approach would maximize the experience and economic benefits derived from free zones by enhancing specialization, improving efficiency, and strengthening their contribution to national competitiveness and growth.